MERCED COUNTY
ASSESSMENT PRACTICES SURVEY
AND
ASSESSOR'S RESPONSE

JANUARY 1999

FOREWORD

The county assessor is responsible for the assessment of all taxable property within the county, except state-assessed property. The assessor's responsibilities include such things as (1) discovering and taking inventory of all property within the county, (2) determining a property's eligibility for a full or partial exemption from assessment, (3) determining the proper assessee (usually but not always the owner), (4) determining the location for assessment purposes of the property, and (5) determining the taxable value of the property in accordance with California property tax law.

Determining taxable value is usually the most difficult and subjective of the assessor's duties. In addition to the inherently subjective nature of the appraisal process, the assessor also has to determine whether the taxable value is to be based on current fair market value or on a value base set earlier. When there is construction activity on a property, the assessor has to determine whether the construction is to be assessed or whether it is excluded from assessment under the law. When there is an ownership transaction, the assessor has to determine whether the law requires a reassessment of the property or whether the property must continue to be assessed according to the existing value base.

The factors discussed above, as well as others not mentioned here, contribute to making local property tax assessment a difficult tax program to administer. It is also a very important program since the property tax is one of the most important sources of revenue for local governments and public schools. For property owners it is a major annual tax burden, and, since it is normally paid in one or two large installments rather than many small increments, it tends to be more visible than most other taxes. Accordingly, proper administration of the property tax assessment program is vitally important both to the public agencies that rely on the tax and to the people who have to pay the tax.

Although the primary responsibility for local property tax assessment is a function of county government, the State Board of Equalization (BOE) has a number of duties in the property tax field imposed by the State Constitution and the Legislature. One of these duties, performed by the BOE's County Property Tax Division (CPTD), is to conduct periodic surveys of local assessment practices and report the findings and recommendations that result from the survey.

Assessment practices survey are authorized by Government Code sections 15640 et seq. These code sections require each county's assessment practices to be the subject of such a survey at five year intervals. The surveys must include research in the assessor's office to determine the adequacy of the procedures and practices employed by the assessor in the assessment of taxable property, compliance with state law and regulations, and other required duties. The surveys may include a sampling of assessments from the local assessment roll to determine eligibility for the cost reimbursement authorized by Revenue and taxation Code section 75.60.

The assessor was provided a draft of this report and given an opportunity to file a written response to the recommendations and other findings contained in the report. This report, together with the county assessor's response and the BOE's comments regarding the response, constitute the final survey report which is distributed to the Governor, the Attorney General, both houses of the State Legislature; and the county's Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey report of the Merced County Assessor's Office was completed by County Property Tax Division staff during July and August of l997. This report does not reflect changes implemented by the assessor after the field work was completed.

The Honorable David A. Cardella, the Merced County Assessor, and his staff gave us their complete cooperation during the assessment practices survey. We gratefully acknowledge their patience and good spirit during the interruption of their normal work routine.

William B. Jackson, Chief
County Property Tax Division
Department of Property Taxes
California State Board of Equalization
January 1999

COUNTY PROPERTY TAX DIVISION SURVEY GROUP

Merced County

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J. Thomas McClaskey	Principal Property Appraiser
Charles Knudsen	Principal Property Appraiser
Office Survey Team Supervisor:	
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Office Survey Team:	
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A. INTRODUCTION

Regardless of the size of the county, the assessment of property for tax purposes is a formidable task. Proper administration of this task is vital both to government agencies in Merced County and to taxpayers. Because the job is so important and so complex, it is necessary for an independent agency such as the State Board of Equalization (BOE) to make periodic reviews of the assessor's operation. This survey report is the result of such a review of the Merced County Assessor's Office by the BOE's County Property Tax Division (CPTD).

Subdivision (a) of section 15640 of the Government Code mandates that:

> The State Board of Equalization shall make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her.

In addition, subdivision (c) provides that:

> The surveys may include a sampling of assessments from the local assessment rolls. Any sampling conducted pursuant to subdivision (b) of Section 15643 shall be sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county.

Government Code section 15640 subdivision (f) also provides that:

> The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

It is apparent from this language that the Legislature envisioned the BOE's office research and appraisal sampling to be parts of a single, connected process, i.e., the evaluation of how well the county assessor is carrying out his or her sworn duty to properly assess all taxable property on the local tax roll. This evaluation was to be based both on office research, or in certain circumstances, office research and actual field appraisals of sampled roll items. The way in which the office research and the sampling process is carried out was developed after consultation with the county assessors by the staff of the BOE's Property Taxes Department.

This survey was conducted according to the method mandated by Government Code section 15642. Following legislative direction, our survey primarily emphasizes issues that involve revenue generation or statutory mandate. This report is the culmination of a review of the Merced County Assessor's operation that consisted of the CPTD's office research that examined current practices and procedures in key areas to see whether significant problems exist in the assessor's operation. Finally, the survey report offers positive courses of action, presented here as recommendations and suggestions, to help the assessor resolve problems identified in the program. The recommendations and suggestions contained in this report are based on our analysis of data which indicates that statutory violations, under or over assessments, or unacceptable appraisal practices may be occurring in specific areas.

Revenue and Taxation Code section 75.60[1] requires that the BOE certify a county as eligible for the recovery of costs associated with administering supplemental assessments. In order for a county to qualify as an eligible county, it must achieve an average assessment level that is not less than 95 percent of the amount required by law as determined by the BOE through its assessment sampling program. In addition for sampling for the 1996-97 fiscal year and subsequent fiscal years, the sum of the absolute values of the differences cannot exceed 7.5 percent of the legally required amount. Based upon our current assessment sampling for the 1993-94 assessment roll, the BOE certified Merced County as an eligible county. This indicates that its assessment program is in substantial compliance with the law.

B. SAMPLING RESULTS

CPTD's field appraisal team completed appraisals of 239 properties of all types assessed on the 1993-94 Merced County assessment roll. This roll contained a total of 67,475 assessments having a total taxable value of $6,879,341,950. (For a detailed explanation of CPTD's appraisal sampling program, see Appendix A). The results of the sampling indicated the composition of the roll by property type as follows:

Property Type	**No. of Assessments**	**Assessed Value**
Single Family	38,313	$2,786,060,079
Vacant Residential	5,567	$119,116,043
Multiple Family	3,123	$412,630,826
Rural	9,559	$2,065,326,104
Commercial/Industrial	7,890	$1,412,406,304
All Other	3,023	$83,782,845
Total	**67,475**	**$6,879,322,201**

[1] All statutory references are to the Revenue and Taxation Code unless otherwise indicated.

C. SUMMARY

We found the Merced County Assessor's Office to be well run and very efficient. The office consists of three major divisions. The assessment roll services division is responsible for maintaining the integrity of the current roll and the roll being prepared. The valuation division consists of the real property sections (residential, commercial-industrial, and agricultural) and the business property section, and is responsible for developing taxable values. The mapping and title services division makes change in ownership determinations and prepares assessor's parcel maps.

Excellent coordination and communication were evident among the inter-office sections (e.g., business property section and real property sections) and between the assessor's office and the other county departments which provide service to taxpayers. Because of fiscal constraints, the assessor has had staff reductions over the last few years. However, the assessor has not only maintained an excellent assessment program and a high level of service to taxpayers, but since our 1993 assessment practices survey report, he has also made innovations that help his staff and taxpayers.

The assessor has implemented all four recommendations from our 1993 survey report. New procedures were implemented to ensure that all required signatures were obtained for claims filed under section 63.1. The assessor initiated requests to the public agencies controlling the use of airports and fairgrounds for data needed to assess appropriate possessory interests. The appraisal staff now compares the selling price of manufactured homes to those listed on value guides. Finally, a study is made of boat values each year to determine the appropriate adjustment for depreciation.

Since our 1993 report, the assessor has implemented the following innovative changes:

- A database containing the physical characteristics of improved properties was created and made available to the staff through the computer system in early 1996.

- A direct enrollment program, utilized primarily for single family residential properties, was established in 1994.

- The self-declared new construction forms have been updated and tailored for each appraisal crew, i.e., residential, commercial/industrial, and agricultural.

D. RECOMMENDATIONS AND SUGGESTIONS

This report contains both recommendations an suggestions for improvements to the operation of the Merced County Assessor's Office.

Government Code section 15645 requires the assessor to respond in writing to the formal recommendations contained in this report.[2] Our recommendations are reserved for situations where one or more of the following conditions exist:

- Violations of state constitutional provisions, statutes, BOE regulations, or case law are present.
- Existing assessment practices result in property escaping assessment or generation of an incorrect amount of property tax revenue.
- Existing appraisal practices do not conform to Board-adopted appraisal methodologies.

Our suggestions are considered less formal than recommendations, and the assessor is not required to make any response to suggestions. Typically, suggestions are BOE staff opinions on ways the assessor can improve efficiency, product quality, or other matters that do not call for formal recommendations.

Here is a summary of the formal recommendations and suggestions contained in this report, arrayed in the order that they appear in the text. The page is noted where each recommendation and its supporting text may be found.

RECOMMENDATIONS

RECOMMENDATION 1: Require all staff appraisers to maintain current training requirements. (Page 7)

RECOMMENDATION 2: Penalize taxpayers who fail to respond to a request for a change in ownership statement. (Page 13)

RECOMMENDATION 3: Assess the cable television possessory interests in accordance with section 107.7. (Page 21)

RECOMMENDATION 4: Revise the mining property assessment program by: (1) ensuring that the discount rates and the royalty incomes have the same inflation assumptions; and (2) appraising all mining properties according to Property Tax Rule 469. (Page 27)

[2] Government Code section 15645 provides, in relevant part: "….within a year after receiving a copy of the final survey report, and annually thereafter, no later than the date on which the initial report was issued by the board and until all issues are resolved, the assessor shall file with the board of supervisors a report, indicating the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations of the survey report, with copies of that response being sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly and the grand juries and assessment appeals boards of the counties to which they relate."

SUGGESTIONS

SUGGESTION 1: Update all the policy and procedure manuals. (Page 6)

SUGGESTION 2: Create a listing of disaster documents by assessor's parcel numbers. (Page 8)

SUGGESTION 3: Request the board of supervisors to conform the low value resolution to section 155.20. (Page 10)

SUGGESTION 4: Develop and implement a written policy for making cash equivalent adjustments. (Page 13)

SUGGESTION 5: Create an office-wide database of local construction costs. (Page 16)

SUGGESTION 6: Conduct periodic field reviews of agricultural properties. (Page 24)

SUGGESTION 7: Develop current market value indicators for the private water company property and enroll the lower of current market value or factored base year value. (Page 26)

SUGGESTION 8: Provide in the audit narrative a detailed description of the auditing procedures for the CIP accounts. (Page 30)

SUGGESTION 9: Create and fill an assessment technician position. (Page 33)

SUGGESTION 10: Use the Assessors' Handbook Section 581 appropriately. (Page 34)

II. ADMINISTRATION

A. PROCEDURES MANUAL

A comprehensive written policy and procedure manual and an operational procedure manual are both beneficial devices for communicating to staff the organization's goals. They are also sources of current information on subjects pertaining to general administration and operational requirements.

SUGGESTION 1: Update all the policy and procedure manuals.

The existing policy and procedure manual serves as the official source of policies and procedures for the assessor’s office; however, many sections of the manual are outdated. Additionally, most of the operational procedure manual has yet to be developed and consists primarily of "Minutes of Appraisal Staff Meeting" or "Instructional" notes which are not always kept up-to-date.

If the assessor's staff is to receive consistent, clear, and concise administrative direction, the policy and procedure manual and the operational procedure manual need to be updated regularly. These manuals are a good source of information for office rules, administrative practices, policy guidelines, specific standards, and uniform procedures for new supervisors and staff. Establishing formalized manuals will ensure that all policies and procedures are consistent with the agreed upon mission, goals, and direction of the assessor's office.

During our last review we suggested that the assessor develop a written exemption policy and procedure manual. While there are some typewritten instructions that have been developed since our last review, these and any others in the future need to be formalized and included in the appropriate manual.

B. OFFICE BUDGET AND WORKLOAD

Since fiscal year 1992-93, the number of staff for the Merced County Assessor’s Office has declined. Total staff went from 35 in 1992-93 to 27 in 1995-96. However in the 1996-97 fiscal year, the staff increased to 31 positions. This increase is due to personnel from the student work program and the Gain Avenues to Independence (GAIN) program (geared towards training welfare recipients). There is no cost to the assessor’s office for these positions; these are temporary positions and people stay in these positions for not more than 18 months.

We reviewed the assessor's annual budgets for the last five years. The following chart shows the budget and staffing history for the Merced County Assessor's Office:

Fiscal Year	Positions	Adopted Budget
1992-93	35	$1,747,311
1993-94	33	$1,772,420
1994-95	31	$1,813,564
1995-96	27	$1,618,504
1996-97	31	$1,647,936

The Merced County Assessor and his staff are performing an exemplary job with the available resources. In order to maintain the program, he has had to mobilize all resources including the use of the GAIN program and the student work program. In addition, he has assigned the supervising auditor-appraiser to process property statements, make aircraft appraisals, and conduct market value studies on boats. Currently the program is running well, but further budget reductions would have a major impact on the assessor's program.

C. TRAINING

Section 670 provides that no person may perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the BOE. Section 671 further provides that all appraisers shall complete at least 12 hours of training a year if the appraiser holds an advanced certificate, or 24 hours of training if the appraiser does not have an advanced certificate. To qualify for an advanced appraiser's certificate, one must have taken a minimum of six BOE courses with at least two classified as advanced. In lieu of advanced BOE courses, the appraiser could take an Appraisal Institute course lasting longer than three days, or a college appraisal course.

There are 15 appraisers in the assessor's office subject to the requirements of sections 670 and 671. Only four of the appraisal staff do not hold an advanced certificate, and of these four appraisers two have not been employed long enough to meet the minimum requirements for advanced certification. It is the assessor's intention that these four employees obtain an advanced certificate as soon as possible.

RECOMMENDATION 1: Require all staff appraisers to maintain current training requirements.

Of the 15 appraisers, six have continuing education training deficiencies. Of these, four were behind by 30 hours or more. The assessor is aware of the training needs of his staff and is making efforts despite budget constraints to provide continuing education to ensure that his appraisal staff meets certification requirements.

The assessor has established a priority listing for training based on deficiency of training hours. The assessor allots $3,500 per year for training. Appraisers are encouraged to take relevant community college courses, BOE classes, BOE approved training, and/or attend the Society of Auditor-Appraisers conferences.

However, the appraisal staff is responsible to maintain their certification; neither the assessor (nor the BOE) are required to provide training. We recommend the assessor require his appraiser staff to maintain current training status.

D. DISASTER RELIEF

Section 170 allows a county board of supervisors to adopt an ordinance to provide property tax relief to assessees whose properties have been damaged or destroyed through no fault of their own. The relief is applicable to a major misfortune or calamity within a region that has been declared a state of disaster by the Governor, or to any other misfortune or calamity. The ordinance may specify a period of time within which the ordinance shall be effective, or it may remain in effect until it is repealed. The Merced County Board of Supervisors has adopted a disaster relief ordinance that conforms to section 170 requirements.

We reviewed a number of properties that experienced damage due to misfortune or calamity. We found that proper assessment procedures were followed in all instances whether relief was granted or disallowed.

In our 1993 report we suggested that the assessor not use the supplemental assessment procedures for properties that are granted disaster relief. At that time the supplemental roll was not intended to be used for providing disaster relief. Legislative changes have been made to allow the assessor to use supplemental assessment procedures for disaster relief properties.

SUGGESTION 2: Create a listing of disaster documents by assessor’s parcel numbers.

Once a disaster relief application is received, it is forwarded to the appropriate supervising appraiser who in turn assigns it to an appraiser. The appraiser reviews the application, inspects the property, and either approves or denies the application. If denied, the taxpayer is notified by mail, a notation is made on the appraisal record, and the application is filed by assessment year. If approved, a reappraisal is made, a notation is made on the appraisal record, a secured appraisal worksheet is created (for current and future action until the damage is repaired), the appraisal file is forwarded for review and enrollment, and the original application is filed by assessment year. Once the value is ultimately restored, all the disaster documents are filed separately by assessment year and the appraisal record is refiled in the general file.

The assessor’s office keeps all disaster documents in a cabinet arranged by assessment year, but there is no listing by assessor’s parcel number. While a file by assessment year is useful, it might be helpful to create a cross reference by parcel number as well. In the past five assessment years there have been an average of 29 disaster applications granted per year.

We suggest the assessor to create a cross reference of these applications by assessor's parcel number.

E. ASSESSMENT APPEALS

The Merced County Assessment Appeals Board is appointed by the county board of supervisors for a three-year term. Merced County has one assessment appeals board with three board members and one full-time clerical position. We found that the assessor has a good working relationship with the appeals board.

The information on the application for change in assessment is reviewed and validated by the appeals board clerk who then forwards a copy to the assessor's office. After verifying information on the application, an assessment clerk makes a copy of the application and forwards that copy and the appraisal file to the assistant assessor for review. Subsequently, the file is forwarded to the appraiser who made the appraisal for review and recommendation to the assistant assessor. If the assessor agrees with the applicant, the appeals board clerk is notified that a withdrawal or stipulation is pending. All valid appeals are scheduled for hearings, including stipulations. We reviewed 12 stipulations; all were well supported by comparable sales or income data.

The assessment appeals workload has increased dramatically since the 1990 statewide economic slump. A widespread real estate decline in market values resulted in the factored base year value of many properties exceeding the property's current market value. This situation prompted many property owners to seek tax relief through assessment appeals.

The assessment appeals board conducts four to five hearings a year, averaging 30 to 40 appeals per hearing. We found the bulk of appeal cases are stipulated or withdrawn before reaching the appeals board. For the fiscal year 1995-96, there were 233 appeals filed of which approximately 75 percent were either stipulated or withdrawn. The 1996-97 appeals still pending number 100 out of 288 applications. There are still three applications pending for 1994-95 and 12 pending for 1995-96; all have filed waivers of the two-year limit, and the balance of appeals for 1994-95 and 1995-96 have been resolved within the two-year limit.

Overall, the assessor's assessment appeal program is well administered. The staff is experienced, knowledgeable, and in conformance with the law and rules pertaining to the appeals process.

F. LOW-VALUE PROPERTY

Section 155.20 authorizes the county board of supervisors to exempt from property tax all real property with a base year value, and personal property with a full value so low that, if not exempt, the total taxes, special assessments, and applicable subventions on the property would amount to less than the cost of assessing and collecting. Any such exemption shall be adopted by the board of supervisors before the lien date for the fiscal year to which the exemption is to apply. At the option of the board of supervisors, the exemption may continue in effect for succeeding fiscal years.

In our previous survey report, we suggested that the assessor request that the board of supervisors increase the low-value property exemption from $1,000 to $2,000 as a means of eliminating assessments that are not cost effective.

SUGGESTION 3: Request the board of supervisors to conform the low value resolution to section 155.20.

Beginning with the 1996-97 roll, the board of supervisors authorized the exemption of "any and all property with a full value of less than $2,000 from the secured, unsecured, and supplement rolls" (Resolution 95-264). The assessor has adopted procedures to implement this resolution. The business property section is exempting assessments below $2,000 in value, unless they are part of a multiple location assessment.

However, this resolution does not conform to the provisions of section 155.20 concerning real property. Section 155.20 provides that the low value exemption applies to the base year value of real property, not the taxable value on the roll. For example, the base year value of real property may be less than $2,000 initially, but over time, the inflation adjustments will cause the taxable value to exceed $2,000 and subject that property to assessment under the resolution.

We suggest that the assessor request the board of supervisors to conform the low value resolution to the provisions of section 155.50.

G. COMPUTER SYSTEM

Merced County is currently using the Megabyte Integrated Property Management System (IPMS) acquired in 1988. Megabyte Systems, a company headquartered in Fresno, developed this full tax cycle data-based software program that serves the county assessor, auditor, and tax collector offices. An updated IPMS program will be available in the fall of 1997. The assessor anticipates acquiring the updated version sometime in 1998.

The updated IPMS will include many new enhancements and operate within the Windows 95 environment. This version will allow the transfer of information from IPMS to other personal computer software applications. This will enable staff to generate ad hoc reports.

The same basic IPMS system is used by eight other counties: Butte, Madera, Napa, Yuba, Monterey, Placer, Sonoma, and Kings (which maintains its own applications). The existing system is continually monitored for problems or deficiencies. The IPMS is supported by users' manuals that are updated by Megabyte System.

The system is also supported by a Megabyte users' group that meets once a year. These conferences allow the user counties to resolve system problems, achieve consensus on system enhancements, and agree on sharing the cost of system enhancements. Due to its proximity to Fresno, the Merced County Assessor's Office has participated in numerous discussions with Megabyte on system enhancements.

We found the existing IPMS to be a valuable tool for managing the assessor's workload and maintaining a quality program despite decreases in staffing levels. It is anticipated that the implementation of the revised IPMS, combined with the addition of personal computers for all staff members, will further enhance the assessor's administration of property tax assessment.

III. REAL PROPERTY ASSESSMENT PROGRAM

A. INTRODUCTION

The major goal and responsibility of the real property program of the assessor's office is to ensure that the taxable value of real property is a reasonable approximation of the taxable value described by applicable law. The assessor's office accomplishes this by:

- establishing base year values for every real property that has experienced a change in ownership or new construction;
- estimating market value for real property that has a market value less than factored base year value;
- defending the assessor's taxable values before the assessment appeals board; and
- preparing taxable value estimates for restricted value property.

The real property appraisal staff consist of three crews, each led by a supervisor. Each crew is responsible for a particular property type, i.e., residential, commercial-industrial, and agricultural. Within each crew, the assessment assignments are divided into geographical areas. Each appraiser is responsible for all assessment activities within his/her assigned area.

B. CHANGE IN OWNERSHIP

1. Sample Results

CPTD's sampling of Merced County's 1993-94 roll included 58 properties that had transferred ownership between March 1, 1988 and March 1, 1993. CPTD's appraisers and the assessor's staff were in agreement as to the taxable value of 51 of the sample items, but there were differences found in the other seven sample items.

Differences were due to appraisal judgment, escaped new construction, and a factoring error in the factored base year value. Overall, these differences do not reflect major shortcomings in the assessor's program for discovering, processing, and establishing base year values resulting from changes in ownership.

2. Transfer Processing

Program

Recorded documents and Preliminary Change of Ownership Reports (PCOR's) are received daily from the recorder's office. The assessor's mapping and title services division, consisting of two title technicians, one draftsman, and one division chief, is responsible for verifying information on the deed and making a determination for change in ownership.

Once a change is ownership is determined, the mapping and title services division packages a copy of the deed, the PCOR, a computer generated appraisal worksheet, physical characteristic sheet, and the assessment record, and forwards it to the valuation division. The PCOR response rate is 95 percent and the response to the Change in Ownership Statement (COS) is 85 percent.

We commend the assessor's office for their efficient processing of deeds and their well-designed worksheets used for tracking partial interest transfers.

Section 482 Penalty

RECOMMENDATION 2: Penalize taxpayers who fail to respond to a request for a change in ownership statement.

The assessor's office fails to apply penalties for nonresponse to COS's. This is in conflict with section 482(a) which provides that a nonresponse to the assessor's written notice within 45 days requires a penalty of either: (1) one hundred dollars ($100), or (2) 10 percent of the taxes applicable to the new base year value--whichever is greater but not to exceed two thousand five hundred dollars ($2,500). Currently, the assessor's office sends a COS to taxpayers that includes the penalty clause. For those taxpayers who do not comply, a second notice is sent, but penalties are never applied.

We recommend that the assessor apply the penalties mandated by section 482. This could increase the response rate for COS's.

3. Cash Equivalent Adjustments

Section 110 and Property Tax Rule 4 define market value in terms of cash and require the conversion of assumed debts and other noncash components of a sale to their cash equivalents.

SUGGESTION 4: Develop and implement a written policy for making cash equivalent adjustments.

The assessor does not have a written policy or procedure for cash equivalent adjustments. They are made at the discretion of the appraiser. The lack of a clear directive from the assessor could create inconsistencies in market value estimates. A cash equivalent policy should be implemented based on the principles expressed in Assessors' Handbook Section 503, *Cash Equivalent Analysis*.

4. Legal Entity Ownership Program (LEOP)

The LEOP section of the BOE's Policy, Planning, and Standards Division sends to each county a list of legal entities that have reported a change in control and ownership. The listing includes the name of acquiring entities, the change in control date, the date resolved by

LEOP, the assessor's parcel numbers of property owned by the acquired legal entity, identification of properties owned or leased on the change in control date, and whether or not they have machinery and equipment.

We reviewed 25 of 71 properties on the LEOP list sent to the assessor covering lien dates 1992 through 1997 and found no errors pertaining to identification and reassessments due to changes in ownership. We also reviewed business property statements for those entities on the LEOP list for years 1993 through 1997 and found that 40 percent of the businesses that underwent a change in control did not indicate that event on the property statement as required. However, we found that the mapping and title services division had taken the appropriate action.

Based on our review, we believe that the assessor's staff is processing LEOP notices properly.

5. Parent/Child Transfers

Section 63.1 excludes purchases or transfers of a principal residence and the first one million dollars ($1,000,000) of other real property between parents and children from "change in ownership" reassessment if a proper claim is timely filed. Section 63.1 requires written certification under the penalty of perjury from both the transferee and transferor declaring the parent/child relationship. Signatures from each of the eligible transferees and each of the eligible transferors on the parent/child claim form constitutes certification.

In our previous survey report, we recommended that the county obtain all required signatures on the parent/child claim forms. The assessor has made a diligent effort to address this recommendation. The assessor's staff are thorough in their examination of documentation and knowledgeable in their processing of eligible claims for the exclusion. We found no instances of missing signatures on certifications or missing social security numbers of transferors. We commend the assessor for implementing procedures to ensure that required signatures are on all claim forms and for providing staff with the necessary training.

6. Direct Enrollment Program

The assessor has a direct enrollment program in which approximately 60-65 percent of all residential transfers are directly enrolled. The residential section's supervising appraiser reviews sales that meet specific requirements for direct enrollment. These requirements are that the sale be confirmed by a Preliminary Change of Ownership Report (PCOR) or Change in Ownership Statement (COS), and it must meet the definition of a market transaction as described in section 110(a).

Transfers are divided into two batches, one labeled Sales Acceptance Program (SAP) and the other labeled Non Sales Acceptance Program (NON-SAP). The SAP properties are those to be reviewed for direct enrollment and the NON-SAP properties are all other transfers. The supervising appraiser checks the SAP properties for compliance to direct enrollment requirements, completes the appraisal worksheets, and forwards them to the assessment roll services division for data entry. The NON-SAP properties are distributed to the staff for reappraisal.

We found the county's direct enrollment program to be efficient and effective, thereby allowing more time for the appraisal staff to work the more difficult assessments.

C. NEW CONSTRUCTION

<u>Program</u>

Our sampling of the 1993-94 Merced County assessment roll had 40 out of 84 selected new construction properties with value differences. Nineteen items of escaped new construction consisted primarily of miscellaneous improvements e.g., patios, landscaping, barns, stalls, fencing, and manufactured home accessories constructed without a building permit. The remaining 21 value differences occurred for a variety of reasons e.g., removal of improvements and differences of opinion. These value differences did not indicate a fundamental problem with the assessor's new construction program.

California law requires that newly constructed real property be assigned a new base year value as of the date construction is completed. In Merced County, the primary means of discovering new construction is building permits issued by various agencies. Merced County has seven building permit-issuing agencies: the cities of Dos Palos, Gustine, Livingston, Los Banos, and Merced; the County of Merced; and the County of Merced Health Department. The county health department has the responsibility of issuing permits for wells and waste disposal systems. Additionally, assessor's staff discover construction activity while they are working their assigned areas. Frequently, especially for commercial/industrial and farm businesses, information is supplied on business property statements.

The assessor's office has an excellent program for ensuring that permits are analyzed for assessable new construction. Building permits are received in the assessor's office from each issuing agency on a monthly basis, with the exception of permits issued by the county health department, which are picked up several times a year by the supervising agricultural appraiser. All permits are first reviewed by the assistant assessor who eliminates non-essential permits and forwards the remaining permits to a clerk. (Non-essential permits are those for non-assessable new construction e.g., reroofs, upgrading electrical service, adding aluminum siding, miscellaneous minor repairs.) The clerk then enters all information for the remaining permits into the computer system, thereby creating secured appraisal worksheets.

Single-family residential building permits and appraisal worksheets are forwarded to the supervising residential appraiser for assignment. All other building permits and appraisal worksheets are forwarded to the supervising auditor-appraiser for review. Should any of these building permits involve business property, a form is attached to the building permit requesting that an auditor-appraiser accompany a real property appraiser during a field inspection. All building permits and appraisal worksheets are then returned to the real property sections for processing.

We commend the assessor for improving the communication and coordination between the real and business property sections by having the supervising auditor-appraiser review all commercial/industrial building permits.

Once the valuation process is complete, all permits are filed by year and assessor's parcel number (APN). Permits are kept for two years, then destroyed.

Individual appraisers, under the guidance of a supervising appraiser, are responsible for the review and valuation of all permit work in their assigned geographic areas. Appraisers are encouraged to obtain as much information as possible by telephone or letter to value the permit work. When necessary, an inspection of the permit work is made.

At the time of our last survey, the assessor had implemented a taxpayer self-declared new construction program. Questionnaires requesting costs and a diagram of new construction are mailed at the discretion of the appraiser to taxpayers who have taken out building permits.

Each real property crew utilizes its own form and has experienced varied responses. The responses based on the total building permits were: agricultural permits - approximately 55% (1100+/- annually); residential permits - approximately 25% (1750+/- annually); and commercial/industrial permits - approximately 50% (500+/- annually). Initially, this program was used cautiously. Due to its increased utilization every year, primarily by the residential and agricultural crews, it has been deemed a cost effective program.

The staff uses the sales comparison approach to value new construction when there are sufficient data. When sales data are not available, local cost factors developed by the appraisers from reported historical costs are used. In addition, staff utilizes the cost manuals from the BOE and/or the Marshall Valuation Service, whenever local or historical costs are not available.

Cost Database

While the permit processing procedures and the new construction valuation procedures are very good, we have one suggestion for improving this program.

SUGGESTION 5: Create an office-wide database of local construction costs.

The appraisal staff obtains historical cost data and develops local construction cost factors for various types of improvements. Cost factors are updated regularly. However, local construction cost factors are maintained by individual appraisers for their own use. There is no central database of local construction cost information. This is particularly important for agricultural properties because agricultural cost data are difficult to obtain.

We suggest that the assessor ensure that historical costs and local construction cost factors are maintained in a database for use by the whole appraisal staff. This would ensure consistency in the valuation of various types of improvements. These data could be used to verify local cost data obtained from contractors in the area from year to year as well as a check against the BOE and Marshall Valuation Service costs.

D. DECLINES IN VALUE

Section 51 requires the taxable value of real property to be the lesser of its factored base year value or its current market value, as defined in section 110. Situations in which the current market value of a property is lower than its factored base year value usually occur during periods of economic decline. As the economy improves, the current market value of the property may exceed the factored base year value. When this happens, the factored base year value again becomes the taxable value.

Property values in many areas of California have declined or stagnated as a result of recent economic conditions. Merced County, a rural community, has been somewhat insulated from these changes in the economy. However, the assessor has actively attempted to identify and reduce assessments for properties that have a market value that is less than factored base year value. The appraisers regularly review their geographical areas of responsibility looking for changing real estate values. Once a property's market value is enrolled as its taxable value, the computer system identifies it for annual review.

In our 1993 report we discussed the market decline in the early 1980's of agricultural land values and the assessor's intensive review program of all such lands within the county. The agricultural land has been divided into 16 different geographic areas, and each area is reviewed annually. At this time there have been no indications of further declines in value nor has there been any indication of increasing agricultural land value.

In our previous survey there was concern that the closure of Castle Air Force Base would affect the economy of Merced County and increase the number of assessments with taxable values that are less than the factored base year values. The final closure of Castle Air Force Base created an impact on the rental market of apartments immediately outside the base. There was a high vacancy rate for two bedroom units. Those properties were reviewed and appropriate adjustments to taxable values were made.

In the late 1980's, a new home development was built in the City of Los Banos. The market for these new homes was intended to be commuters to jobs in the San Jose area. In 1991 and 1992 property values in this development decreased dramatically. This decrease was due to the economic decline of property values in general in the San Francisco Bay Area. This made the housing industry in that area more affordable and in turn made the Los Banos area less desirable.

In an effort to monitor value declines in Los Banos, the assessor's office identified single family residences that have sold since the early 1990's. These properties were identified by subdivision for convenience in selecting comparable sales. The appraiser determines the market value on the lien date for a model in a subdivision and then compares that value to the factored base year value of the previously identified residences in that subdivision. If the market value of these properties have declined below the factored base year values, the assessor will enroll the market values as the taxable values.

The assessor and his staff have done a commendable job of monitoring property values within the county:

E. SPECIFIC PROPERTY TYPES

1. Income Producing Property

CPTD's sampling of the Merced County assessment roll (1993-94) included 37 commercial/industrial properties. Of these, only nine had assessed values greater than $3 million and three properties had an assessed value greater than $18 million.

Of the 37 commercial and industrial property sampled, CPTD's estimate of taxable value and the assessor's taxable value were in agreement in 19 instances, while 18 samples reflected differences. There were 13 cases where CPTD taxable values exceeded the assessed values and five where the assessed values exceeded CPTD's estimate of taxable value. Of the 18 samples with differences, seven were due to value judgment differences; four were due to escape assessments; four due to differences in personal property and/or machinery and equipment (fixture) valuation; two were decline in value differences; and one difference was due to a base year value error. None of these differences were due to any procedural problems in the assessor's valuation program.

The commercial and industrial section consists of one supervising appraiser and two field appraisers, of which one is a trainee. The staff in the commercial and industrial section use all three approaches to value. However, the capitalized income approach is the most frequently used. The discounted cash-flow income capitalization technique is the primary value indicator for major commercial and industrial properties that are unique in nature (examples: shopping centers with high vacancy; cogeneration plants; windmills; and fast-food restaurants with percentage leases). We reviewed several of the larger commercial/industrial properties with assessments from $2 to $20 million and found no problems relating to the valuation procedures or assessments.

For sales and income analyses, the commercial and industrial appraisers have questionnaires that are well designed, are comprehensive, and are effective tools for the collection of data. The appropriate questionnaires pertaining to new construction, sales, and income data are selected based on the activity trigging the review or revaluation.

Approximately 80 percent of properties that are subject to reappraisal are field reviewed. Properties that are not typically field reviewed are commercial signs and small new construction additions with reported cost. All construction in progress (CIP) properties are field inspected within two days of the lien date for determination of CIP and assessment status.

The appraisal staff uses reported costs and Marshall Valuation Service cost indicators to value new construction. The income approach is also used when appropriate and when reliable income data are available.

2. Tenant Improvements

Tenant improvements (TI's) are defined as fixed improvements to land or structures owned by the tenant/lessee. Tenant improvements are also referred to as leasehold improvements.

A portion of the BOE prescribed business property statement (Schedule B of Form 571-L) requires taxpayers to report real property costs incurred for construction, remodeling, or alterations at a given business location; this includes costs expended by tenants for improvements to rented or leased buildings. The auditor-appraisers in the business property section review reported costs on Schedule B for those they believe to be assessable tenant improvements. Copies of business property statements with structure costs are forwarded to the commercial/industrial section for follow-up analysis.

The business property statement also serves as a check on construction that may have been performed without a building permit; coordination between the two sections provides the real property appraiser with historic costs reported by the property owner. Correspondingly, real property appraisers provide auditor-appraisers with data that aids in segregating reported costs into real and personal property components, and they also report taxable personal property items that they discover.

The business property section assesses all tenant improvements on the unsecured roll to their owners. It is the responsibility of the TI owner to notify the assessor's office of any changes regarding property deletions, additions, and location. The TI's are valued using reported acquisition cost on the business property statement and Marshall Valuation Service, with the greatest reliance given to reported acquisition costs.

Coordination between the real property and the business property sections serves as an important adjunct to the discovery of assessable tenant improvements through the building permit process. The supervising auditor-appraiser reviews all the commercial coded permits for discovery of new businesses and identification of assessable tenant improvements before forwarding them to the commercial crew for valuation. Discovery of tenant improvements by the commercial crew are forwarded on assessor's form Equipment Status Report to the supervising auditor-appraiser.

We reviewed approximately 20 business property statements and real property assessments records with tenant improvements checking for (1) reported cost and description, (2) proper identification of TI's by the business property section, (3) coordination between the business property section and the real property section to ensure proper assessment, and (4) proper assessment of TI's, looking for possible double assessments and escapes. We found that items reported on the business property statements pertaining to real property were properly transmitted to the real property section. Of those properties reviewed, no significant problems relating to the assessment of tenant improvements were found. In summary, we found that the line of communication between the real and business property sections is effective.

3. Possessory Interests

Program

Taxable possessory interests are private property rights in publicly owned real property. The term 'taxable possessory interest' as it is used for property taxation purposes in California includes either the possession of or the right to possession of real property when fee title is held by a government agency.

The assessor enrolled for the l996-97 assessment roll 329 taxable possessory interests of all types with a total taxable value of $13,609,706. The possessory interests are located on property owned by 61 public agencies. The CPTD had three possessory interest samples in the l994 survey. We agreed with the value on one of them and had small differences on the other two due to appraisal judgment.

We randomly reviewed various possessory interest appraisal files and interviewed the appraiser in charge of possessory interest assessments. The assessor annually sends a questionnaire to the public agencies requesting a list of tenants with their names, addresses, rent, terms of possession, property descriptions, and dates of possession. After the questionnaires are returned, the appraiser reviews the lists, appraises any new possessory interest, makes appropriate remarks on the appraisal record, and forwards the assessment for enrollment on the unsecured roll.

In our l993 survey, we recommended that the assessor improve the possessory interest program by assessing all possessory interests at airports and fairgrounds. The assessor has followed our recommendation by requesting the necessary information from the agencies operating the airport and the fairground so that he may assess the appropriate possessory interests.

The assessor receives a list of all the tenants at the Merced County Fair in Merced and the Merced Spring Fair at Los Banos. All possessory interests that have a taxable value above the low value exemption amount of $2,000 are assessed. The assessor previously assessed only six possessory interests at the fairgrounds; he is now assessing 58. The assessor is also following our recommendation of assessing all possessory interests at airports. We commend the assessor for following our recommendation of assessing all possessory interests at the airports and fairgrounds.

Cable Television

Cable television properties are among the most difficult and controversial properties to appraise. The difficulty arises because a major part of a cable television property is the possessory interest held by the cable television operator.

We reviewed the possessory interest assessments of six cable television companies in Merced County. As noted below the assessor's staff appears to be using appropriate terms of possession in valuing four of these possessory interests. We believe implementation of the following recommendation will assist the assessor's staff in properly assessing all of these properties.

RECOMMENDATION 3: Assess the cable television possessory interests in accordance with section 107.7.

The base year values for the possessory interests of two cable companies were established in l986 and l987. The assessor used a 15 year term of possession in assessing them. Two other cable companies had new contracts in l994 and l995. In valuing the possessory interests of those two companies, the assessor used a term of 15 years for one and 10 years for the other. The last two cable companies reviewed transferred on September 1, 1995 and November 1, 1995. The possessory interest base year value for the change in ownership was determined by dividing the anticipated first year's income by a rate.

The appraiser relied on an example and the directions provided in the *Cable Television Appraisal Handbook* published by the California Assessors' Association in l992. This handbook provides that for all practical purposes, except for cases of extreme malfeasance by the cable television franchisee, the term of possession is as good as perpetual (pages 118 and 138). However, by definition, a possessory interest is a limited term interest in property owned by a public entity. The fee and the reversionary rights are owned by the public entity. In all cases, a cable television franchise has a fixed term of possession which may be subject to renewal. The assessor can only assess the property rights held by the possessor, not those of the public entity.

Section 107.7 (b) (2) reads in part:

> For purpose of this section, the annual rent shall be that portion of that franchise fee received by the franchising authority that is determined to be payment for the cable television possessory interest <u>for the actual remaining term or the reasonably anticipated term of the franchise or license</u> or the appropriate economic rent. (Emphasis added)

We recommend that the assessor follow the provision of section 107.7 and use a reasonable term of possession in establishing the base year value for the cable companies' possessory interests.

4. Manufactured Housing

Manufactured homes comprise only a small portion of the assessor's workload in Merced County. There are approximately 1,900 manufactured homes currently on the tax roll with a total taxable value of over $45,000,000. The majority of the manufactured homes are not located in any of the county's 35 manufactured home parks.

Manufactured homes subject to local property taxation are assessed according to sections 5800 through 5842, referred to as "The Manufactured Home Property Tax Law." This is a self-contained section of law that applies many of the principles of article XIII A of the California Constitution (Proposition 13) to the assessment of manufactured homes which by statute are classified as personal property. Briefly, manufactured homes subject to this law receive the following assessment treatment that is different from the assessment treatment of most other personal property:

- are assessed on the secured roll regardless of whether the assessee owns the land;
- receive a tax bill payable in two installments;
- are subject to supplemental assessments (except in the case of voluntary conversion from vehicle license fees to local property tax);
- have a factored base year value that establish an upper limit for taxable value;
- may receive the homeowners' exemption; and
- qualify as original property for the purposes of base year value transfers (Propositions 60/90/110).

The residential section of the assessor's office is responsible for assessing manufactured homes. As part of this responsibility, this section processes: (1) Department of Housing and Community Development reports; (2) building permits; (3) dealer reports of sale; and (4) tax clearance certificates. After all source documents are processed, the computer system generates a secured appraisal worksheet for those manufactured homes that require appraisal action.

The worksheet and pertinent documents are then forwarded to the residential section where a property file is created for each manufactured home which includes: drawing of the home, the decal number, identification number, make, model, year of manufacture, accessories, foundation type, condition, and pertinent details regarding the ownership of the underlying land. Manufactured home appraisals are assigned to appraisers based on geographical area. All manufactured home assessments are reviewed each year.

Currently, the assessor's staff rely heavily on the nominal selling prices of manufactured homes as the primary indicator of value. They believe that the manufactured home parks in Merced County contribute no value to selling prices of manufactured homes.

In order to ensure that site value is not assessed, section 5803(b) directs the assessor to consider a recognized value guide for manufactured homes in determining fair market value. In our previous survey we recommended that the assessor consider recognized manufactured housing value guides and note these values on the appraisal records. The assessor's staff now compares the nominal sale price of a manufactured home to values listed in the N.A.D.A. *Manufactured Housing Appraisal Guide* and to the BOE's cost handbook.

In general, the manufactured homes assessment program is well-administered. Discovery procedures are good, and the files are complete and well-maintained. Manufactured homes are correctly classified and assessed as personal property, and supplemental assessments for manufactured homes are correctly processed. A market value below factored base year value for manufactured homes is processed on each assessments.

5. Rural Properties

Program

CPTD's sampling of the Merced County's 1993-94 assessment roll included 70 rural properties. There were value differences in 26 of the sample items. In four cases, the assessed values were higher and in 22 items lower than the CPTD values.

In the majority of cases, the differences were due to escaped new construction resulting from work undertaken without a building permit. These differences did not indicate a fundamental problem with the assessor's rural property assessment program, but they do support a need to periodically field review these properties.

We found the rural property assessment program to be comprehensive and effective. The appraisal records were well documented. The assessed values were supported with comparable sales, replacement and historical/reported costs, and other pertinent data. Diagrams on the appraisal records indicated the location of nonliving improvements, species of orchards and vineyards, and a general location of developed and undeveloped lands.

Each appraiser on the agricultural crew is responsible for a specific geographic area represented by the assessor's mapbook. Reliable sales information derived by each appraiser from sales occurring within the assigned area is entered onto hardcopy spreadsheets and is available for use by the entire crew. This information includes parcel number, seller and buyer, number of acres, date of recording, sale price, improvement value, miscellaneous or personal property allocation, and land sale price per acre.

However, reliable construction cost information is only recorded on the appraisal record which is ultimately refiled. No reliable construction cost information is maintained in any database for use by other staff members. This is further discussed in our comments and a suggestion regarding new construction elsewhere in this survey. Even though local construction cost surveys are occasionally made, by way of phone calls to local contractors, reliable construction costs from completed projects should be maintained and available to all of the appraisal staff.

There is excellent coordination and communication between the agricultural crew and the business property section. This provides the assessor with an effective means of avoiding potential escaped and/or double assessments on these properties.

Field Review

While the overall agricultural properties assessment program functions quite well, our sampling program revealed that a substantial amount of new construction projects escaped assessment.

SUGGESTION 6: Conduct periodic field reviews of agricultural properties.

Many rural properties have not been field reviewed for several years, resulting in numerous escaped assessments. Essentially, rural properties are reviewed only on an "as needed or event" basis by the appraiser.

If field reviews are conducted on a rotating schedule within the county, fewer new construction projects would escape assessment. Once initiated, these field reviews should substantially increase the number of newly constructed improvements assessed on agricultural properties throughout the county.

We suggest that the assessor establish a rotating schedule to conduct field reviews of agricultural areas within the county over the course of the next few years.

6. Taxable Government-Owned Property

The California Constitution exempts from taxation property owned by a local government, except lands and the improvements thereon that are located outside the local government's boundaries that were subject to taxation at the time of acquisition by the local government (article XIII, sections 3 and 11 of the California Constitution). These properties are commonly referred to as section 11 properties because they must be assessed in accordance with the procedures specified in article XIII, section 11, of the California Constitution.

Briefly, the value of the land must be the lowest of (1) the l967 assessed value adjusted by a factor supplied annually by the BOE; (2) an assessment based on current fair market value; or (3) the factored base year value prescribed by article XIII A. In addition, the base year value of any improvement is established when the property is acquired by the local government. Subsequently, the assessor enrolls the lower of the factored base year value or the current market value. Improvements constructed subsequent to acquisition are exempt unless they replace improvements that existed prior to acquisition by the local government. In that case, the taxable value of the replacement improvement cannot exceed the highest taxable value ever used for the replaced improvement.

All records for the 33 section 11 properties are filed by parcel number in the main file area. Each folder contains a computer sheet indicating the 1967 assessed value adjusted by the annual factor supplied by BOE, the factored base year value, and the current market value. The lowest of the three values is identified as the taxable value and enrolled on the assessment roll.

Our review indicated that the assessor is correctly assessing taxable government-owned properties.

7. Water Companies

A water company whose properties are assessed on local tax rolls may be a government-owned water system on taxable government-owned land (article XIII, section 11 of the California Constitution), a private water company either unregulated or regulated by the California Public Utilities Commission (CPUC), or a mutual water company. Each type presents a different assessment issue. There is no taxable government-owned water company property in Merced County. All property owned by municipal water systems are located within agency boundaries.

Mutual Water Company

A mutual water company is a private association created for the purpose of providing water at cost, to be used by its stockholders or members. The association, when incorporated, can enter into contracts, incur obligations, own property, and issue stock. However, if not incorporated, it can only do these things in the names of the members. Corporations organized for mutual purposes are not subject to regulation by the CPUC unless they deliver water to persons other than stockholders and members.

From a review of available records, we identified only one mutual water company in Merced County. The property of this mutual water company is assessed to the company and not to the shareholders of the corporation. The assessor's office receives a business property statement and a corporation depreciation and amortization schedule from the company every year. The company was incorporated in August 22, 1958 and the articles of incorporation are in the appraisal file. Our review of the file indicated that the assessor is correctly assessing the property of this mutual water company.

Private Water Companies Regulated by the California Public Utilities Commission (CPUC)

Private water companies earn a profit from the sale of water. Regulated water companies are required to submit financial reports annually to the CPUC. The CPUC regulates the rates charged by a private water company, with profits being limited to a return based on the net book value of the company's property. Because the value of property used by private water companies is tied directly to regulated rates, current market value of these properties may be less than their factored base year value, making it necessary to annually determine the market value of the real property as well as any personal property subject to ad valorem tax.

There is one regulated privately-owned water company in Merced County. The assessor's office has a copy of the annual reports filed with the CPUC of the privately-owned water company from l984 to l996 in its files. The assessor's staff has completed a mandatory audit of this company for the years 1992 through l995.

SUGGESTION 7: <u>Develop current market value indicators for the private water company property and enroll the lower of current market value or factored base year value</u>.

The assessor's practice has been to use the factored base year value as the taxable value each year. This factored base year value was based on the historical cost as of the date of the change in ownership adjusted for additions or deletions after the base year. As described above, the current market value of the real property owned by the private water company may be less than its factored base year value. This is because the regulator's allowed net operating income is a function of net book value which may be declining. Thus, an assessment based on the factored base year value may be an overassessment of the property of private water companies.

In summary we suggest that the assessor periodically calculate the HCLD (historic cost less depreciation) and capitalized income value indicators for the property of this regulated private water company. The assessed value should be the lower of the market value or the factored base year value.

8. <u>Mineral Properties</u>

Merced County has 18 mining properties and one shut-in gas property. The commercial/industrial supervising appraiser is responsible for these properties.

<u>Petroleum Properties</u>

When natural gas was initially discovered and put into production in this county, the supervising appraiser contacted the BOE to obtain assistance in developing valuation procedures for these properties. The county's appraiser determined the parameters to use for the appraisals, and the BOE assisted in developing the general valuation procedures. Three of the four initial wells were abandoned in 1997 after reaching their economic limit. The fourth well is shut-in (sealed) while evaluating the economics of connecting it to a pipeline.

Mining Properties

The mining properties are mostly sand and aggregate quarries. The properties are generally appraised using the income approach based on royalty. The appraisal for each property is well documented and includes copies of use permits and lease agreements.

RECOMMENDATION 4: Revise the mining property assessment program by: (1) ensuring that the discount rates and the royalty incomes have the same inflation assumptions; and (2) appraising all mining properties according to Property Tax Rule 469.

Inflation Assumptions

The appraiser values the mineral rights assuming a fixed royalty for the life of the property. This fixed income assumes no inflation in the income stream over the life of the property. However, the discount rates used by the appraiser assume that the income stream recognizes inflation. Failure to adjust the discount rate to account for inflation assumptions understates the market value estimate of the mineral property.

The appraiser developed the discount rate by the band of investment method. Inherent in the band of investment method is the assumption that the income stream offers inflation protection. Therefore, the discount rate derived by band of investment is already adjusted for inflation (or increasing income stream).

In order to avoid this incorrect application of the income approach, the appraiser must do one of two things: (1) adjust the royalty income to include inflation; or (2) adjust the discount rate for inflation expectations.

For the first, the appraiser should review the escalation clauses in the lease and make an estimate of the royalty income each year recognizing inflation for the life of the mineral right. For the second, the appraiser should divide one plus the discount rate, before adding the component for property taxes, by one plus the expected inflation rate. The result is a discount rate with no inflation expectation.

We recommend that the assessor be consistent in the inflation assumption for his income stream and the discount rate.

Property Tax Rule 469

The county is not properly applying section 469 of Title 18 of the California Code of Regulations (Property Tax Rule 469) to the assessment of mining properties. Property Tax Rule 469 specifically applies the principles of article XIII A of the California Constitution to the assessment of mining properties.

The assessor's office failed to adequately adjust the reserves for decreases other than depletion. The staff adjust the reserves for decreases only to the point that the change is zero. If the reduction is less than zero, no additional reduction is made. In addition, the assessor's office makes no comparison between the factored base year value and current market value for a property.

The county's failure to adequately reduce the quantity of proved reserves, for changes other than depletion, means that the adjusted base year value of proved reserves is incorrect. The result is an overstatement of proved reserves and, based on the valuation method used by the county, overstates the value of the mineral rights. Changes in reserves should be accounted for as prescribed in Property Tax Rule 469.

Additionally, factored base year values should be compared each year to the current market value of the property to determine the assessable value. The lower of the two values is the taxable value. The county's appraiser did not make any determination of the current market value of the mining properties. In order to comply with statutory provisions and Property Tax Rule 469, each year the current market value of the mineral rights should be compared to the adjusted base year value to determine the assessable value to place on the tax roll.

We recommend that the assessor ensure that his appraiser follows Property Tax Rule 469.

IV. BUSINESS PROPERTY ASSESSMENT PROGRAM

A. INTRODUCTION

For the 1996-97 assessment year, the Merced County Assessor's business property staff consisted of one supervising auditor-appraiser, three auditor-appraisers, and one assessment clerk. This staff is responsible for annually processing more than 7,900 business and agricultural property statements, 2,100 direct billing accounts, 1,850 boats, and 277 general aircraft.

CPTD's sampling of the 1993-94 local assessment roll included 85 secured and unsecured business property samples. In 45 of these sampled items, the assessor's taxable values differed from the values determined by CPTD staff. Specifically, the local assessment roll values exceeded CPTD's appraised values for 9 of the sampled items, while CPTD's appraised values were higher in 36 cases. Although CPTD's sampling of the 1993-94 local assessment roll disclosed differences in value, we found the business property section to be a well-run program, and the sample differences did not indicate any fundamental problems in their program. A review of office procedures and assessment practices revealed that the business property staff is competent, professional, and exercises sound judgment.

The mandatory audit program is current. All audits reviewed were of high quality with good documentation and detailed audit checklists. In addition, staff make good use of their resources in the discovery of taxable business property and taxable leased equipment.

Overall, we found that the business property staff maintains a quality program with few areas for improvement, most of which are a direct result of budgeting problems. Since our 1993 report, the assessor's office has been unable to replace the auditor-appraiser position eliminated in the 1992-93 budget and, in addition, has lost one of two assessment clerks. As a result, the business property program must be maintained with fewer staff. To ease the impact on the staff, a large percentage of routine clerical and technical, and some auditor-appraiser work, is performed by the supervising auditor-appraiser. This directly affects the time available to perform those supervisory functions necessary to maintain a successful business property program.

In addition, auditor-appraisers perform many routine clerical tasks. Much of this work could be performed by an appraisal technician or assessment clerk, freeing valuable auditor-appraiser time for audits and statement processing. This, in turn, will allow the supervising auditor-appraiser more time to manage the program and review the work of the business property program. This will also provide the supervising auditor-appraiser with time to address any deficiencies in the business property program.

We commend the assessor for his sustained accomplishments in the audit program despite staffing deficiencies. An excellent example is the assessor's handling of the conversion of Castle Air Force Base to private industry. This project has required a very proactive approach on the part of the business property staff to ensure that all new businesses are reviewed and physically inspected; copies of all leases have been obtained.

The recommendations and suggestions that follow are intended to encourage the continuing excellence of this program. They also provide the added benefit of preparing the county for future growth which may affect the balance of staffing to workload.

B. AUDIT PROGRAM

The assessor's office has a workload of 318 mandatory audits, or approximately 80 per year. Although there has been a reduction of staff for the last few years, the assessor's office has still managed to finish their scheduled audits with only three audits carried over to the next fiscal year for 1996, and none for 1995 and 1994.

1. Mandatory Audits

We reviewed the assessor's schedule for completing the mandatory audits and found that all were completed timely. A factor that contributes to such timeliness is that the assessor has implemented an Audit Status Report. This report is a progress report tracking the percent completion of each audit. Problem audits that create delays are identified and addressed immediately by both the auditor-appraiser and the supervisor. In response to our previous survey suggestion concerning an audit check list, we found the assessor requires that a detailed four page checklist be completed and attached as an integral part of all audits. We also reviewed the audit procedures. Other than the construction in progress accounts, their audits are detailed and well documented.

SUGGESTION 8: Provide in the audit narrative a detailed description of the auditing procedures for the CIP accounts.

Construction in progress (CIP) accounts have a high potential for inaccuracy. In many instances, the taxpayer's CIP accounts as of the lien date are not accurate. This may be caused by a delay in billing by the contractor, delay in payment by the taxpayer, bills lost in the system and therefore not capitalized timely, extra costs due to modifications, and billings not made. Because of these potential problems, the staff should conduct an in-depth investigation of the CIP accounts.

Of 10 audits we reviewed, four had CIP accounts. We reviewed worksheets and the narratives of the four accounts. All narratives and worksheets are fairly brief and do not show evidence of detailed investigations. Because of the high potential for inaccurate CIP, we believe that the auditor-appraiser should always do a detailed review of all CIP accounts. We suggest that the assessor instruct his audit staff to include an in-depth audit of all CIP accounts, provide a detail narrative of the investigation, and that the supervising auditor-appraiser ensure such a review.

2. Non-Mandatory Audits

A major objective of an audit program is to ensure proper reporting on the annual business property statements. Although there is no legal requirement to audit small businesses, no audit program is complete unless it includes a representative sampling of all sizes and types of accounts. Errors in reporting business property costs on the annual property statement is one of the most significant and common differences noted in CPTD and county audits. Unless an audit is performed, these reporting errors will probably continue year after year. Also, a taxpayer might deliberately report incorrect costs to keep assessed values below the mandatory audit threshold and thus avoid a mandatory audit.

The assessor's office performed approximately 60 non-mandatory audits during the 1996-97 fiscal year of which 30 were in-office reviews (documentation brought into the assessor's office by taxpayers). The non-mandatory audits are selected from a pool of accounts created by the auditor-appraisers during their mandatory audits or processing of property statements.

We commend the assessor for maintaining a non-mandatory audit program despite budgetary constraints. This will minimize reporting errors on property statements and ensure taxpayers' compliance with the law.

C. DIRECT BILLING

Many California assessors utilize an assessment procedure called "direct billing" or "direct assessment." It is a method of assessing qualified low-value business accounts without the annual filing of a business property statement. An initial value is established and continued for several years, with property statement filings or field reviews required periodically. Examples of businesses suitable for direct billing include apartments, barber shops, beauty parlors, coin-operated launderettes, small cafes and restaurants, and professional firms with small equipment holdings.

The direct billing program is beneficial to the taxpayer and the assessor. It results in a reduction of paperwork for taxpayers and fewer business property statements that must be processed annually by the assessor's staff. This increases time available for the auditor-appraisers to conduct audits.

In 1997, there were 2,355 accounts on the direct billing program, the majority of which were apartments. This total included 643 business accounts that were added in 1997 for the first time.

Annually, the staff sends an inquiry letter to each direct billing account asking if there have been any changes within the past assessment year. If there have been no changes, then the prior assessment is directly enrolled. If there is a change, the property owner is asked to complete and return an attached business property statement. In addition, the direct billing accounts are divided into four sections, and each year the staff sends a business property statement to one of the sections so that at the end of four years, all direct billing accounts would have received a regular business property statement.

The assessor has a good direct billing program. The following guidelines have been established to determine which accounts are eligible to participate in the program: (1) the assessed value must be less than $10,000; (2) there must be few changes in equipment costs from year to year; and (3) a business property statement must have been filed at least once in the past two years.

D. DISCOVERY OF PROPERTY

Timely discovery of taxable property is one of the basic functions of any county assessor throughout the state. It is also a never-ending process that is accentuated by the rapid turnover of many small businesses, changes in ownership, situs changes, etc. It is a demanding task to maintain accurate, up-to-date listings of assessable business properties. Therefore, it is imperative that an efficient and effective discovery program be in place.

The assessor’s office does not conduct an annual field canvass but does have an effective discovery program. The staff relies on information from sales tax permits, business licenses, business financing statements from the county recorder’s office, and landlord’s updated listings of lessees and sublessees. They also use the BOE’s Form 600-B for information on any leased equipment used by public utilities and railroads but not assessed by the BOE. As time permits, they review the telephone book business listings.

In addition, if a real property appraiser discovers taxable personal property during a field review, the real property appraiser will obtain any available data and forward it to the business property section. Form B-116 (New Construction Audit Request) is used by the real property section to alert the business property section to new businesses or to pending changes in assets when requesting an audit of construction costs.

We commend the assessor for his efforts in the discovery of taxable business personal property, in efficient coordination between the real property and business property sections, and in use of available data to minimize the amount of property escaping taxation.

E. BUSINESS PROPERTY STATEMENT PROCESSING

Program

Most business property assessments are based upon data submitted by taxpayers on the annual business property statements. The more accurate the data reported on the property statements by the taxpayer, the more accurate the assessment on the roll.

The law requires that every person owning taxable personal property having an aggregate cost of $100,000 or more must file a signed business property statement (BPS) with the assessor. Every person owning personal property which does not require the filing of a BPS must, upon request of the assessor, file a signed BPS. When the taxpayer fails to file the statement, section 501 gives the assessor the authority to make an estimated assessment based on information in his possession. Additionally, section 463 provides that a penalty of 10 percent of the assessed value of the unreported taxable property shall be added to the assessment made on the current roll.

The business property section has very effective procedures in place to annually process over 8,000 business property statements. They have a low incidence of property owners failing to file annual property statements. This reflects favorably on the thoroughness of the assessor's business property assessment procedures.

Assessment Technician

SUGGESTION 9: Create and fill an assessment technician position.

Many of the problems in the business property section are due to staffing shortage. The supervisor is processing business property statements and the auditor-appraisers are doing routine clerical tasks because there is a shortage of staff.

The supervising auditor-appraiser personally processed over 3,000 agricultural property statements and 275 aircraft assessments during the last assessment season. This leaves very little time for reviewing processed business property statements or completed audits. In addition, many of the clerical and routine tasks for this section are completed by the auditor-appraisers.

Therefore, we suggest that an assessment technician position be added to the business property section. This position should be used to relieve the auditor-appraisers of tasks that do not require a certified auditor-appraiser. This will free the auditor-appraisers to assume the responsibilities of processing agricultural property statements and valuing aircraft.

Ultimately, this will allow the supervising auditor-appraiser to review large agricultural, commercial, and industrial property statements and randomly review selected other property statements prior to final enrollment. In addition, the supervising auditor-appraiser will be able to more effectively manage the program. This will enhance the overall quality of the program by correcting any errors or non-compliance with written procedures and directives. It will also promote greater uniformity in the application of valuation techniques.

F. VALUATION FACTORS

Taxable values of equipment are typically derived by applying valuation factors to acquisition costs. The valuation factor is the product of the price index factor and percent good factor. The proper choice and application of these price and percent good factors produce the best estimate of taxable value.

The BOE annually publishes Assessors' Handbook Section 581 (AH 581) to help assessors in the valuation of business property and trade fixtures. The percent good factors are intended to reflect the average loss in value that a commercial or industrial property, in general, will suffer over its service life. The factors are based upon averages and represent a reasonable estimate of depreciation for the majority of this type of property.

SUGGESTION 10: Use the Assessors' Handbook Section 581 appropriately.

The auditor-appraisers use the suggested price and percent good factors from the AH 581 to appraise machinery and equipment, with one notable exception: the valuation factors are held to a minimum of 25 percent of original cost. This minimum factor is used because the staff believes that any machinery and equipment in use has value even though its service life has exceeded the initial estimate.

Appraisers should analyze the age and condition of all property when service lives are assigned and price and percent good factors are applied. If it appears that the service life of a property is deviating from the norm, adjustments should be made in the assigned service life in order to correctly use the AH 581. However, deviations, such as minimum valuation adjustments, from the tables without adequate evidence are not good appraisal practices.

To properly use the AH 581, the assessor's staff should follow the guidelines on page one which provides that the maximum equipment index factor utilized should be limited to 125 percent of the estimated average service life of the equipment class to which it belongs. For example, if the average service life assigned to the equipment by the auditor-appraiser is 12 years, the maximum index factor utilized in 1997 would be the 1982 factor since property acquired in 1982 would be 15 years old (125 percent of 12 years) in 1997. If any equipment was older than 15 years, the appropriate index factor for 1982 would be applied to those older equipment costs.

Using the 125 percent method as described in AH 581 will always provide an estimate of taxable value on older equipment still is use. Therefore, it is not necessary to use minimum factors on older equipment. When it is apparent that the valuation factors undervalue older assets, the staff should consider adjusting the effective age of the equipment. This will result in reasonable estimates of taxable values and eliminate the need for arbitrary minimum valuation factors.

We suggest the assessor discontinue using the arbitrary minimum valuation factor.

G. SPECIFIC PROPERTY TYPE

1. Leased Equipment

One of the responsibilities of the business property section is the discovery and assessment of taxable leased equipment. Taxpayers report on the annual business property statement all leased equipment (taxable property in their possession but belonging to others). The name and address of the owner, the month and year of acquisition, the acquisition cost, and other relevant information are requested on the property statement.

When leased equipment is reported by the lessee on the business property statement, the assessment clerk checks to see if the reported lessor is on the "lessor's control list." If there is an assessment file for the lessor, the clerk makes a copy of page one of the property statement and places it in the lessor's folder. If the lessor is not a lessor of record, the clerk sends to the lessor a business property statement which includes a supplemental form entitled Lessor's Report of Leased Equipment.

Business property statements are sent to all known lessors. Both a physical check and a computer check are used to reconcile information submitted by lessors and lessees. The computer system provides information to determine when lessors meet the requirements that place them in a mandatory audit category.

Property statements received from leasing companies are processed before processing other types of business property statements so that any items that have gone off lease for the current year can be followed up. This is done by placing in the current lessee's business property statement file a copy of the page on which the leased equipment was previously reported.

We reviewed the procedures for assessing leased equipment and found that the program is well managed with staff doing an excellent job in the discovery, processing, tracking, and assessing of leased equipment.

2. Valuation Of Computers

In the past, the valuation of computers and related equipment (herein referred to as computers) was a contested issue between taxpayers and assessors. In its continuing effort to maintain proper, equitable, and uniform property tax assessment, the BOE, in Letter to Assessors (LTA) 97/18, dated April 2, 1997, recommended valuation factors for assessors to use when valuing non-production computers for the 1997 lien date.

The tables for small computers and mainframe computer systems represent a recalculation of the depreciation curves that were used to calculate those categories for the 1996 lien date. The table for mid-range computers represents a new curve based on all data accumulated to date. The BOE reviewed all data accumulated by the Property Taxes Department, the California Assessors' Association, and representatives of the computer industry, and authorized the publication of the computer valuation tables for the 1997 lien date.

We reviewed several business property files and found that for the 1997 lien date, the assessor had valued computers using the BOE recommended factors contained in LTA 97/18. Based on this review, we believe that the assessor has an effective program for the assessment of computers.

3. Boats

Other than jet skis, the initial assessed value for a boat is based on ABOS, an industry valuation guide, or the boat declaration provided by the taxpayer. Following the initial assessment, boats are reduced in value each year. The percentage of adjustment is based on an in-house study performed by the supervising auditor-appraiser. This study is done every year to ensure the adjustment percentage is valid.

The study consisted of sampling boat market values of various types and comparing them to the market value determined through ABOS or newspaper ads. The assessor's staff will adjust the boat's prior year's value by the percentage developed in the study.

The classification of boats is based on the suggestion we provided to the assessor in our 1993 report. The assessor's staff places jet skis in a separate category and uses a different percent adjustment, also based on a study. One clerical staff member is primarily responsible for the boat records. An auditor-appraiser oversees the appraisal process and acts as the resource person.

We reviewed the studies for various types of boats and jet skis and found them to be detailed and well documented. Also, the data appear to be from a variety of sources and to be reasonable. We also physically inspected 10 boats and verified their value; all values appear to be within the range indicated by ABOS.

4. Aircraft

Merced County has one certificated aircraft, 15 historical aircraft, and 229 general aircraft. For the certificated aircraft, the assessor's staff used the audited costs of the business property statement and applied the percentage of time the aircraft was situated in Merced County to derive the appraisal value. We reviewed the certificated aircraft appraisal and audit and found the procedures to be correct.

All historical aircraft are annually required to report a schedule of when and where the aircraft was displayed, along with other pertinent information. We verified these declarations and also reviewed the exemption claims of three historical aircraft. We confirmed that the procedures for assessing historical aircraft are correct.

In addition, we reviewed the assessor's general aircraft assessment procedures. Annually, a statement is sent to the taxpayer requesting all necessary information including total time on the airframe, time since major overhaul, year manufactured, model number, and avionics. All this information is utilized to determine the value of the aircraft.

In 1997, the BOE did not provide counties with the aircraft value guide. As an alternative, the BOE suggested the assessor's staff used the Aircraft Bluebook Price Digest, an industry valuation guide. We reviewed five aircraft owner statements and performed physical inspections to verify value. The assessor's procedures for assessing general aircraft are correct.

5. Business Property In Residential Units

Landlord-owned personal property located in hotels, motels, and residential rentals is reportable annually on the "Apartment House Property Statement" (Form 571-R). Annual reporting is not required if the assessment is part of the direct billing program. Such personal property includes, but is not limited to, freestanding refrigerators, freestanding electrical stoves, exercise equipment, landscape equipment, office equipment, and common area furniture. In 1997, there was personal property in over 1,800 apartments, hotels, motels, and miscellaneous residential rentals, of which 1,712 were assessed using the direct billing program.

For processing of the business property statements, if the reported cost appears reasonable and the units are relatively new, the staff applies price and percent good factors from AH 581 to the reported costs to calculate assessed values. If reliable cost data are not available, the staff uses cost data from the Marshall Valuation cost manual. The staff also uses an in-house developed schedule of values for rental furniture (stoves and refrigerators) containing estimated values for new and used equipment.

We reviewed a number of business property statements and assessments of personal property in residential rental units and found that the assessor's office has good procedures in place for the discovery and assessment of taxable personal property located in residential rental units.

THE ASSESSMENT SAMPLING PROGRAM

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at 1 percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

The Board, in order to meet its constitutional and statutory obligations, focuses the assessment sampling program on a determination of the full value of locally taxable property and eventually its assessment level. The purpose of the Board's assessment sampling program is to review a representative sampling of the assessments making up the local assessment rolls, both secured and unsecured, to determine how effectively the assessor is identifying those properties subject to revaluation and how well he/she is performing the valuation function.

The assessment sampling program is conducted by the Board's (CPTD) on a five-year cycle and described as follows:

(1) A representative random sampling is drawn from both the secured and unsecured local assessment rolls for the counties to be surveyed.

(2) These assessments are stratified into three value strata, identified, and placed into one of five assessment categories, as follows:

a. Base year properties -- those properties the county assessor has not reappraised for either an ownership change or new construction since the previous CPTD assessment sampling.

b. Transferred properties -- those properties where a change in ownership was the most recent assessment activity since the previous CPTD assessment sampling.

c. New construction -- those properties where the most recent assessment activity was new construction added since the previous CPTD assessment sampling.

d. Non-Proposition 13 properties -- those properties not subject to the value restrictions of Article XIII A.

e. Unsecured properties -- those properties on the unsecured roll.

(3) From the assessment universe in each of these fifteen (five assessment types times three value strata) categories, a simple random sampling is drawn for field investigation which is sufficient in size to reflect the assessment practices within the county. (A simple nonstratified random sampling would cause the sample items to be concentrated in those areas with the largest number of properties and might not adequately represent all assessments of various types and values.) Because a separate sample is drawn from each of these assessment types and value categories, the sample from each category is not in the same proportion to the number of assessments in every category. This method of sample selection causes the raw sample, i.e., the "unexpanded" sample, to overrepresent some assessment types and underrepresent others. This apparent distortion in the raw sampling is eliminated by "expanding" the sample data; that is, the sample data in each category is multiplied by the ratio of the number of assessments in the particular category to the number of sample items selected from the category. Once the raw sampling data are expanded, the findings are proportional to the actual assessments on the assessment roll. Without this adjustment, the raw sampling would represent a distorted picture of the assessment practices. This expansion further converts the sampling results into a magnitude representative of the total assessed value in the county.

(4) The field investigation objectives are somewhat different in each category, for example:

a. Base year properties -- for those properties not reappraised since the previous CPTD assessment sampling: was the value properly factored forward (for the allowed inflation adjustment) to the roll being sampled? was there a change in ownership? was there new construction? or was there a decline in value?

b. Transferred properties -- for those properties where a change in ownership was the most recent assessment activity since the previous CPTD assessment sampling: do we concur that a reappraisal was needed? do we concur with the county assessor's new value? was the base year value trended forward (for the allowed inflation adjustment)? was there a subsequent ownership change? was there subsequent new construction? was there a decline in value?

c. New construction -- for those properties where the most recent assessment activity was new construction added since the previous CPTD assessment sampling: do we concur that the construction caused a reappraisal? do we concur with the value enrolled? was the base year amount trended forward properly (for the allowed inflation adjustment)? was there subsequent new construction? or was there a decline in value?

d. Non-Prop 13 properties -- for properties not covered by the value restrictions of Article XIII A, do we concur with the amount enrolled?

e. Unsecured properties -- for assessments enrolled on the unsecured roll, do we concur with the amount enrolled?

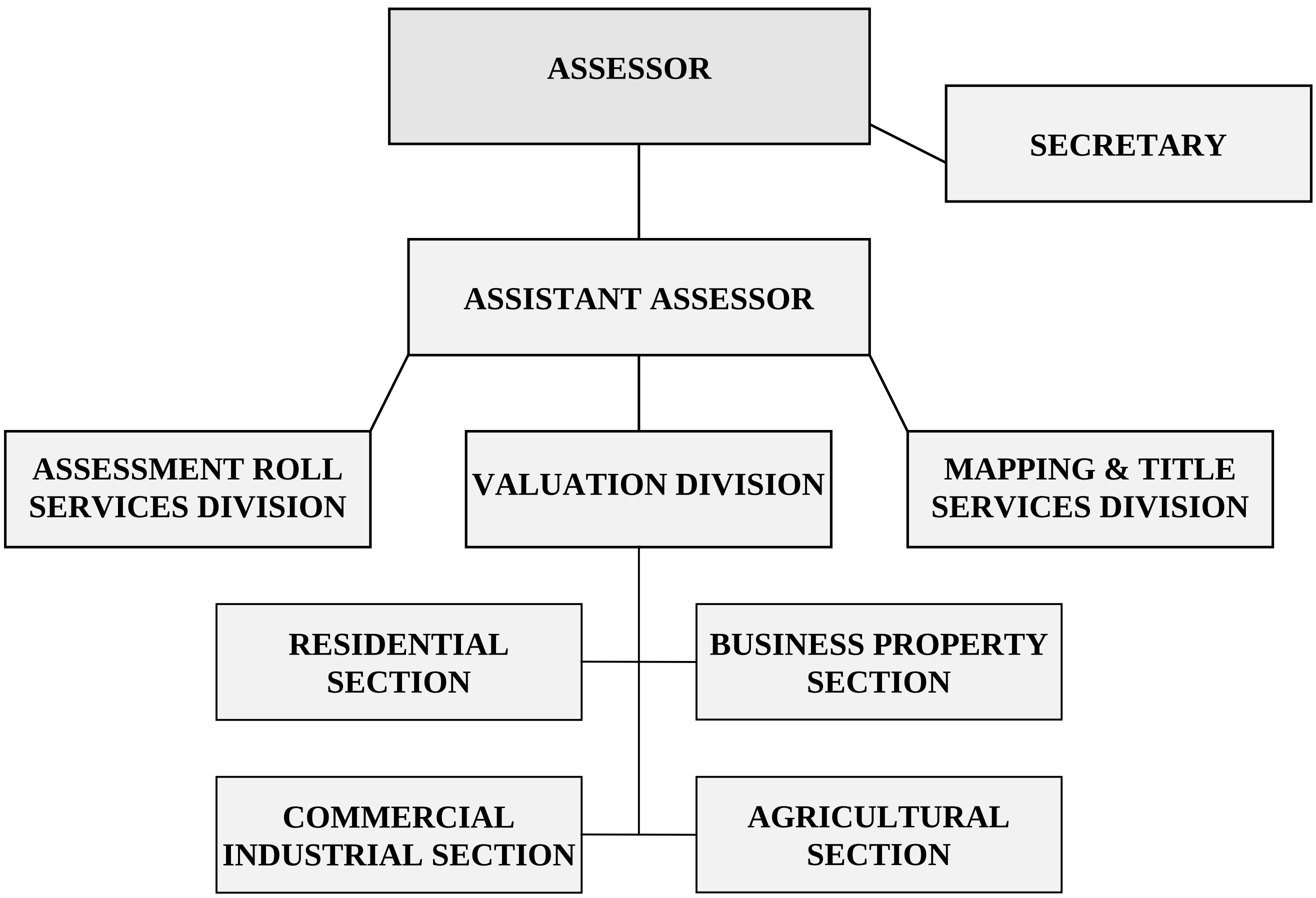
(5) The results of the field investigations are reported to the county assessor, and conferences are held to review individual sample items whenever the county assessor disagrees with the conclusions.

(6) The results of the sample are then expanded as described in (3) above. The expanded results are summarized according to the five assessment categories and by property type and are made available to the assessment practices survey team prior to the commencement of the survey.

One of the primary functions of the assessment practices survey team is to investigate areas of differences disclosed by the sampling survey data, determine the cause and significance of the differences, and recommend changes in procedures that will reduce or eliminate the problem area whenever the changes are cost effective or are required by legal mandate. Consequently, individual sample item value differences are frequently separated into segments when more than one problem is identified, and the results expanded and summarized according to the causes of the differences. Much of the support for the Assessment Standards Division's recommendations in the form of fiscal and numerical impact is drawn from the expanded sample data, and statistics relating to specific problems have been incorporated in the text of this report.

Emphasis is placed on factors directly under the county assessor's control. Differences due to factors largely beyond the county assessor's control, such as (1) conflicting legal advice, (2) construction performed without building permits, (3) unrecorded transfer documents, (4) assessment appeals board decisions, and (5) factors requiring legislative solution are specifically identified in the text when these problems are reflected in the statistics.

ORGANIZATION CHART



ASSESSOR'S

RESPONSE

TO

BOARD'S

RECOMMENDATIONS

COUNTY ASSESSOR
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TELEPHONE (AREA CODE 209) 385-7631
MERCED, CALIFORNIA 95340

DAVID A. CARDELLA, R.M.
Assessor
BILL W. SMITH
Assistant Assessor
LORRAINE RICHARDS
Chief Assessment Roll Serv.

August 4, 1993

RECEIVED
AUG 6 1993
Division of Assessment Standards
SACRAMENTO

Mr. Verne Walton
Chief, Assessment Standards
State Board of Equalization
P. O. Box 942879
Sacramento, CA 94279-0001

Dear Verne:

Pursuant to Section 15645 of the Government Code, the following is our response to the State Board of Equalization Assessment Practices Survey of Merced County.

I want to commend and thank your staff for the professional, courteous, and constructive manner in which the survey was conducted. I also want to thank you and all the other State Board of Equalization employees who have been helpful over the years. All of your collective knowledge and experience has been of benefit and is appreciated.

Many of the recommendations and suggestions in the survey have been implemented. Others will be implemented as staff and time allows.

I also wish to thank all of the employees of the Merced County Assessor's Office. Their dedication and outstanding effort enables our office to achieve and maintain an excellent assessment program. I also appreciate the support we have received from the County Administrative Office and the Board of Supervisors.

Sincerely,

Dave

DAVID A. CARDELLA
Merced County Assessor

/cc

RESPONSE TO SURVEY

Recommendation 1: Obtain all required signatures on Proposition 58 claim forms.

Response: The Assessor recognizes the legal requirement for all signatures on the Prop. 58 claim form. This office will make more diligent effort to obtain all required signatures. The Prop. 58 program is time consuming and frustrating to administer. Reappraising otherwise qualifying properties, because all signatures are not obtained generally leads to a Board Order change, reversing the reappraisal, and often a refund of taxes. In these times of reduced resources and inadequate staffing, Prop. 58 would be a good candidate for revisiting and rewriting to ease the administrative burden on the Assessor.

Recommendation 2: Assess all possessory interests at airports and fair grounds.

Response: We concur with this recommendation and have taken steps to have both the airports and fairgrounds in our county provide us with the necessary information so that we may enroll the appropriate P.I's.

Recommendation 3: Consider selling prices listed in recognized manufactured housing value guides and note these prices on manufactured home appraisal records.

Response: Although it was not shown by the SBE sample that mobile home valuations have been negatively impacted by the procedure currently used by our appraisers, we will comply with Section 5803(b) by making a recognized value guide for manufactured homes available to our staff.

Once the guide is available, the value shown in the guide should be made part of the appraiser's reconciliation of value and be made part of the appraisal record like any other appropriate data.

Recommendation 4: Review boat assessment procedures.

Response: Merced County does analyze market data prior to application of an annual 5% decrease in value. We currently do not categorize that sample but will compile the information necessary to do so as personnel resources permit.